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Startup Lift: Continuously Refine Positioning to Find the Pivot That Produces Product-Market Fit

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Initiatives: Customer Acquisition for Tech CEOs

SaaS startups rarely get it right the first time. Instead, tech CEOs should initially explore a variety of market segments, customer problems and differentiation to find the right product-market fit that produces a predictable and repeatable compelling reason to use and buy their product.

Overview

Key Findings

- Tech CEOs of SaaS startups struggle to achieve product-market fit when targeting a wide range of use cases across broad target markets.
- Early sales success often appears to demonstrate product-market fit but cannot be predictably repeated because it is more opportunistic.

Recommendations

Tech CEOs of SaaS startups defining product positioning to align customer acquisition with product-market fit must:

- Refine product positioning by targeting an acute need or want of a narrowly defined market segment that aligns the company's SaaS product with the market's unique and compelling reason to use and buy.
- Evolve positioning toward product-market fit by identifying patterns in the onboarding process, usage and stickiness over time that demonstrates the potential to deliver predictable and repeatable usage and sales.

Introduction

If there's one constant in the life of a SaaS startup, it's the pivot (that is, the change in direction). Despite tech CEOs' best attempts to build a great app from the outset, it rarely works out that way. Instead, tech CEOs aim, they miss, they aim again, and they miss again, searching for that right path to market success. In many respects, the success or failure of a SaaS startup does not just hinge on its technology, product features, or even vision. Instead, SaaS startup success is often due to the right pivot, no matter how large or small that pivot may be.

Don't take our word for it. A brief walk down memory lane tells a pretty compelling story:

- YouTube began as a video dating site. ^{1,2}
- Twitter's original roots were as a podcasting network. ^{1,2}
- Instagram started as a check-in and gaming app. ^{1,2}
- Max Levchin, Peter Thiel and Luke Nosek all started Confinity to build security for handheld devices before connecting with Elon Musk, whose internet banking company X.com took interest in the money transfer part of Confinity's business. A merger gave birth to PayPal. ²
- Then there's Airbnb. Ever wonder about the "Air" in the company name? Airbnb founders' Brian Chesky and Joe Gebbia "came up with the idea of renting out inflatable air mattresses in their San Francisco apartment, along with a cooked breakfast." ³ They planned to offer an affordable place for tech conference attendees to stay and network with other conference attendees. That approach didn't work out too well, and they made one of the most historic pivots in history. Airbnb is "now the largest accommodation company in the world and doesn't even own a single hotel." ³ Now, that's a pivot.
- Then there's Slack, ⁴ which began as Tiny Speck (an online game). But gaming turned out not to be the real value. Instead, the real value was the game's messaging platform, Searchable Log of All Communication and Knowledge.

These stories offer a glimpse into one inescapable fundamental of the startup: always be refining your positioning to make the right pivot. There may be a greater opportunity just out of view. You just need to look.

Analysis

For tech CEOs of SaaS startups, achieving product-market fit (see Note 1) is usually the end of the beginning. Achieving product-market fit signals that the initial journey has reached its targeted goal. With that initial fit achieved, with users adopting the software, and monetization either having begun or is looming just over the horizon, we are now ready for the force multiplier effect (see Note 2). It's time to grow, and grow fast. Tech CEOs take aim at dominating their initial target market, and then move on to the next one and the next one after that. High growth velocity is the goal. High valuation is the reward.

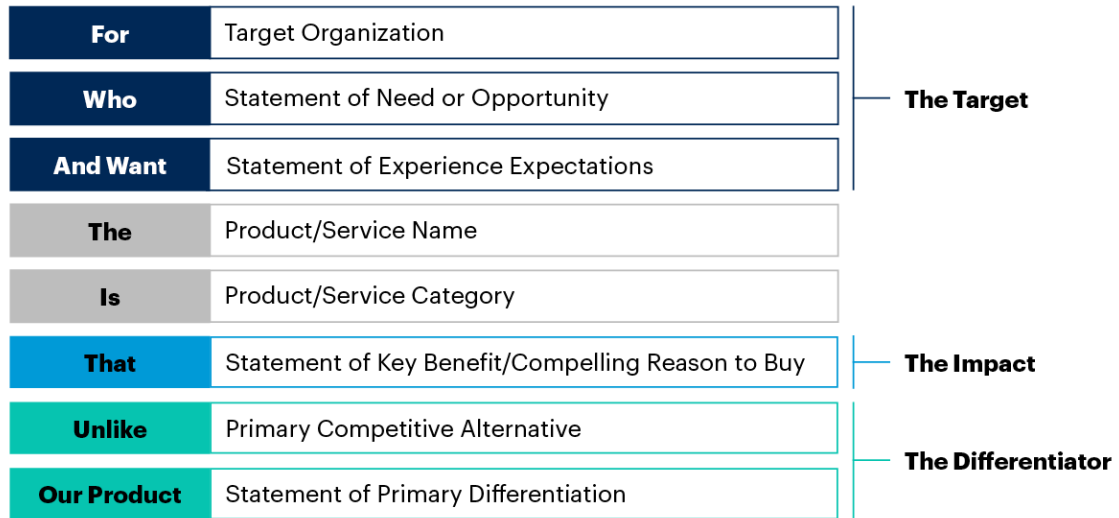
Unfortunately, many obstacles stand in the way. Questions that tech CEOs must ask include:

- Are we targeting both the right market and right need that the market is ready and willing to solve and can be monetized?
- Are we targeting the problem in the right way?
- Does our solution to that target market's problem deliver enough impact in the form of a significant enough better outcome such that there is a compelling reason to use and buy the software?
- Are we unique enough to be perhaps the only, if not the best choice, to solve this compelling problem?
- Is there a particular aspect of our solution that customers love, but it's really not addressing the problem we sought to solve initially?

The questions above are all part of the lifeblood of SaaS startups: positioning. Books have been written, case studies have been done, extensive research has been done at Gartner – all of which have guided companies on a single, critical, and widely misunderstood process known as “positioning,” as illustrated in Figure 1.

Figure 1: Positioning Framework

Positioning Framework



Source: Adapted From Geoffrey Moore, "Crossing the Chasm: Marketing and Selling Disruptive Products to Mainstream Customers." 766975_C



Let's take a closer look at each aspect of the positioning framework — the target, the impact and the differentiator — to explore the process for refining the key elements on the journey toward discovering product-market fit.

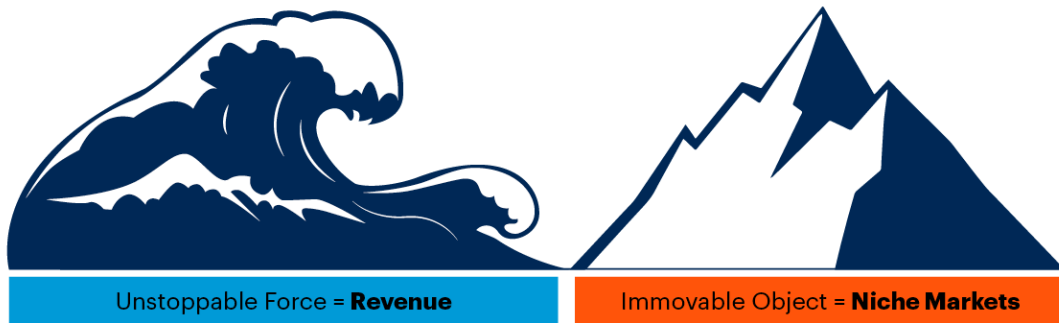
The Target — Narrow Your Focus

In the early stages, many SaaS startups have a tendency to see unlimited market potential in what's being created. A "conquer the world" attitude is often what drives entrepreneurs to pursue an aspiration that, unfortunately, produces failure at a very high rate. This conquering attitude is critical to overcoming the endless array of obstacles faced by SaaS startups. It also manifests, however, in tech CEOs reaching too broad, too soon, in terms of target market, which in turn will likely produce the opposite of the intended result.

Of course, the need to produce early revenue to sustain the business and attract investors is also a driving force in casting a wide net to catch customers. It can be a luxury to have the capital needed to limit your focus to a narrowly defined market segment. But not all tech CEOs have that capital and, therefore, need to pursue real customers willing to pay for something today, even if it's not perfectly aligned with the product being sold. This may be best illustrated by the long recognized irresistible force paradox that occurs when an unstoppable force meets an immovable object, as illustrated in Figure 2.

Figure 2: Irresistible Force Paradox

Irresistible Force Paradox



Source: Gartner
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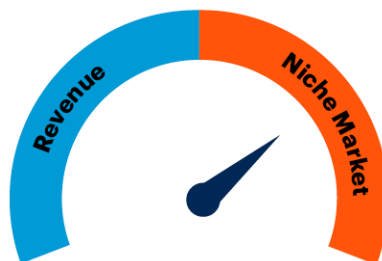
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Revenue that generates much-needed cash flow represents the unstoppable force. Without it, the company may starve and be unable to raise the money needed to survive. Niche markets represent the immovable object. Quite simply, virtually every successful startup’s early success and ensuing escape velocity (see Note 3) was fueled by targeting the right niche market where product-market fit was achieved and demonstrated through user adoption and, ultimately, by predictable and repeatable sales.

Because this is a paradox, there is no perfect solution, and tech CEOs of SaaS startups must recognize that the paradox exists. Tech CEOs must tip the balance toward the immovable object – the niche target market, while at the same time recognizing the risk that the unstoppable force – the need for revenue – must be mitigated through any and all means necessary (see Figure 3).

Figure 3: The Paradox Choice

The Paradox Choice



Source: Gartner
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And what is that niche market? How is it identified, defined and selected? In Geoffrey Moore's "Crossing the Chasm: Marketing and Selling Disruptive Products to Mainstream Customers,"⁴ a high-tech target market is defined as:

- "A set of actual or potential customers;
- For a given set of products and services;
- Who have a common set of needs and/or wants; and
- Who reference each other when making a buying decision."

The "niche" in niche market is best reflected in that last part of Moore's market definition. When buyers reference each other, they tend to do so because they are similar kinds of companies, have similar needs and/or wants and, hence, buy for similar reasons that are *predictable* and *repeatable*. Predictability and repeatability are the pathway to product-market fit.

Quite simply, repeatable and predictable usage and sales – the absolute must-have for any SaaS startup – are best achieved in smaller groups where needs and wants are more likely to be similar. The larger the group, the more likely differences will surface, resulting in less repeatability and predictability – the DNA of product-market fit. Growth is fueled when you sell the same thing in the same way over and over. It's difficult to sell to different use cases serving a broader market in the same way. It requires different features, different marketing messages and, likely, selling to different sets of buyers.

The Impact – Offer a Compelling Reason to Buy

Often overlooked in the positioning process is the idea of a "compelling reason to buy." Targeted users and organizations have many problems and situations that technology can improve. But solving a customer problem does not automatically equate to a benefit that is compelling enough for customers to invest their precious time, effort and money. Instead, a compelling reason to buy typically requires an outcome that is substantially better than the current situation, often referred to as an "order of magnitude" improvement. This is critical because buyers are often faced with many alternatives to improve their business, including doing nothing if the impact isn't substantial.

When refining positioning based on early customers usage and feedback, define use cases that map compelling impact to one or more of the three R's below (see Figure 4):

- **Revenue: Best in Class** – How does the product impact revenue growth? Examples include enabling new revenue opportunities or preventing revenue opportunities from being lost. A clear understanding of the product’s target market and how its benefits lead to a revenue growth outcome is indispensable to driving this “best-in-class” impact story.
- **Risk: Fear Factor** – How does the product impact meaningful and tangible risks to the business? Examples may include security, compliance, reputation and customer retention, among many others. Risks with sufficient impact to establish a compelling reason to buy should be described with specific business outcomes, case studies and metrics where possible. Furthermore, explain how the product reduces the risk of intrusion, ensures compliance, protects reputation and ensures customer retention.
- **Return: Most Popular** – This is an often used “catchall” for saving money, increasing productivity and maximizing efficiency, among others. It tends to be cliché, as customers hear these phrases repeatedly from vendors. If impact is saving money, for example, focus on how those savings are produced and are significant enough, including metrics that support and justify it. Identify the most compelling use case(s), demonstrating how the product is either saving money or increasing productivity. For example, more than a decade ago, vendors of SaaS products were able to capitalize on return. Vendors of SaaS products did so by highlighting the cost savings/cash-flow impact of moving from capital expenditure (licenses) to operating expenditure (subscriptions) for software, as well as eliminating the hard costs of hardware and the ancillary expenses that went along with hardware. See [Startup Lift: How Tech CEOs of SaaS Startups Quantify the Value of Their Solution](#).

Figure 4: The Three R's

The Three R's

Use cases must define exactly how the product will meaningfully impact revenue, risk or return.

Source: Gartner
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The Differentiator – Provide Clear Connection Between a Product's Differentiation and Compelling Reason to Buy

The positioning refinement or pivot to achieve product-market fit is not complete without a clear connection between a product's differentiation and the compelling reason to buy. A SaaS product may be better, easier to use, faster or less expensive. That is most meaningful, however, insofar as it is directly connected to achieving the order of magnitude impact customers need and want to invest precious time, money and resources into making a change.

For example:

- If large datasets take too long to produce reports, thus rendering results outdated, a product targeting that problem should focus its differentiation not just on the speed of its technology, but also on exactly how it speeds up the process. Doing so will ensure that reports are rendered in time to deliver a better outcome.
- If the unpredictability of assembly line machine maintenance causes production disruption that impacts revenue opportunities, a solution's differentiation should be directly related not to just improving machine monitoring, but also to actually predicting maintenance well enough in advance. Doing so will ensure that production is not disrupted.

- If getting new vaccines and medications to market is impacted by clinical trials that are unable to assemble and maintain patient control groups, a solution targeting this problem should not just focus its differentiation on how it ensures more stable patient control groups. Rather, the solution should focus on how *the way* it achieves patient stability results in new therapies getting to market sooner. Connect the dots.

Differentiation is at the core of refined positioning. Everything learned from early customers should be aimed at what you do best, delivering what matters most, to whom it matters most to. Connecting differentiation to delivering an impact to the target market that benefits most is the recipe for product-market fit capable of achieving high-growth velocity. Selecting differentiation based on product features is fleeting. Instead, connect differentiation to core business models and process differences that are independent of the technology itself.

Conclusion

Key actions for tech CEOs to refine positioning are shown in Table 1.

Table 1: Refine Positioning

| Steps | Actions |
|---------------------|-------------------------------------------------------------------------------------------------------------|
| The Target | Narrowly define target market where customers share similar needs and/or wants and buy for similar reasons. |
| The Impact | Identify a compelling reason to buy that impacts revenue, risk and/or return. |
| The Differentiation | Connect differentiation to the impact the product is delivering to the target market. |
| | |

Source: Gartner (June 2022)

Positioning your SaaS product is an evolving process. It should be refined regularly on the journey toward product-market fit and continue even after achieving that milestone. Refining this positioning is critical to making the correct pivot. Pivoting is a competitive advantage. Pivoting is responding to market forces. And positioning is the tool to help you achieve the right pivot.

Evidence

¹ The 7 Greatest Pivots in Tech History, The Washington Post.

² Famous Business Pivot Examples That You Should Know Of,

³ Famous Tech Business Pivots, Venture Motion.

⁴ The Most Fascinating Profile You'll Ever Read About a Guy and His Boring Startup, WIRED.

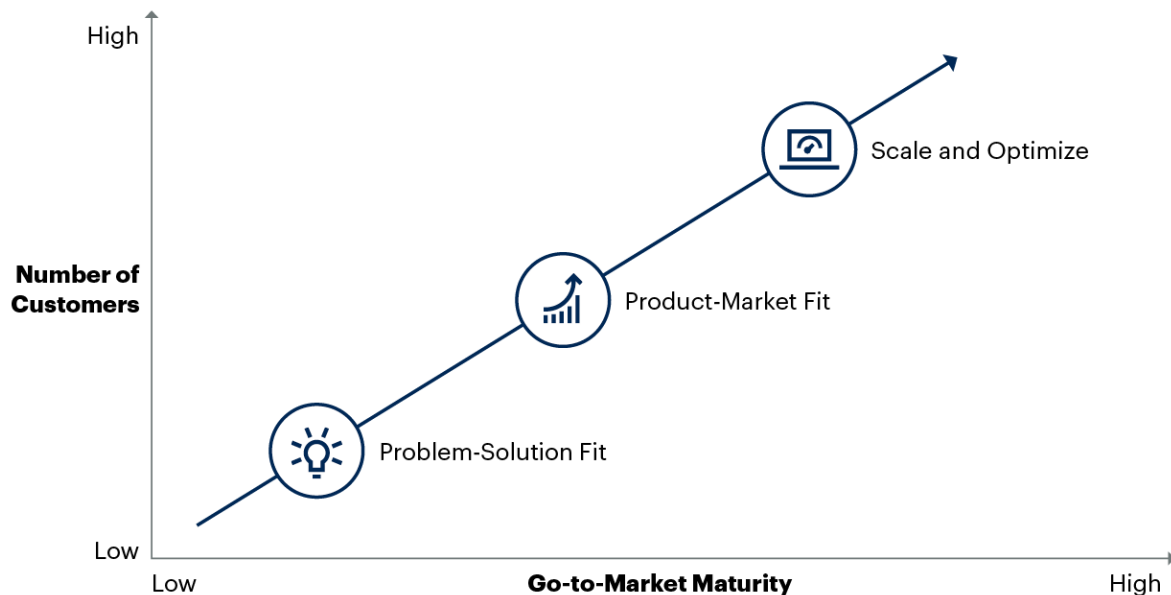
⁵ G. Moore, "Crossing the Chasm: Marketing and Selling Disruptive Products to Mainstream Customers," HarperCollins Publishers, 1991. This book has sold more than 1 million copies. The model discussed in this research has been used effectively in thousands of inquiries to help providers improve their positioning.

Note 1: Definition of Startup Lift Growth Phases

Figure 5 shows startup lift growth phases in terms of number of customers and go-to-market maturity.

Figure 5. Startup Lift: Growth Phases

Startup Lift: Growth Phases



Source: Gartner
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Problem-Solution Fit

Problem-solution fit is the first major milestone in the development of a new product or service where an initial customer has installed a solution to solve a specific problem and has validated the value proposition.

This phase is all about reaching this first milestone, and includes identifying a compelling need, scoping the opportunity and initial technical feasibility and then working with initial customers to validate the value proposition. Imperatives of this phase include identifying a detailed/narrow yet scalable target segment and an initial go-to-market strategy, validating the value proposition, defining a minimum viable product candidate, and creating an indicative product roadmap that exploits the opportunity.

Product-Market Fit

Product-market fit is the milestone in the development of a new product or service when the customer acquisition processes have become repeatable and predictable. This milestone is used to determine when a startup company is ready to scale.

This phase focuses on getting to this critical milestone, a repeatable and predictable sales and marketing process. It spans launching the minimum sellable product, evolving the product capabilities and optimizing the go-to-market strategy. Typical activities include identifying the buying team, developing messaging and demand generation programs, and building a sales process beyond founder-led sales and early customer success initiatives.

Scale and Optimize

Startups that have achieved product-market fit then need to accelerate growth by investing in sales and marketing, while scaling the business operationally.

During this phase, teams are built out to support a growing customer base, which requires the maturation of internal processes, policies and structure to scale talent, capacity and functional discipline. Focus is on lowering costs of customer acquisition, automating processes and identifying expansion strategies.

Note 2: Force Multiplier Effect

Force multipliers apply leverage to business situations to amplify a company's capabilities. This may be in the form of putting large amounts of capital to work to scale once product-market fit is achieved. It is using whatever tools are at the company's disposal to achieve high velocity growth when the opportunity presents itself.

Note 3: Escape Velocity

Escape velocity, in scientific terms, is the speed needed to break free from a gravitational body without further propulsion. For startups, escape velocity is the combination of revenue, customer numbers, growth velocity and market leadership that equate to a certain level of scale and growth.

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